



Actuarial & Employer Services Division
P.O. Box 942709
Sacramento, CA 94229-2709
Telecommunications Device for the Deaf - (916) 795-3240
(888) CalPERS (225-7377) FAX (916) 795-3005

April 19, 2005

AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Employer Rate Stabilization Policy – Second Reading
- II. PROGRAM:** Actuarial & Employer Services
- III. RECOMMENDATION:**

That the Committee recommends to the full CalPERS Board the adoption of an Employer Rate Stabilization Policy to include the following changes to help reduce volatility in employer contribution rates. These changes will become effective with the June 30, 2004 actuarial valuations which set employer contribution rates for fiscal 2005-06 for State and School plans and fiscal 2006-07 for public agency plans.

Adopt an Employer Rate Stabilization Policy (see Attachment 1) to:

- (A) Change the Board's actuarial asset smoothing policy No. 95-05C as follows:
 - 1. In the calculation of the actuarial value of assets, spread market value asset gains and losses over 15 years as opposed to the current 3 years; and
 - 2. Change the corridor limits for the actuarial value of assets from 90%-110% of market value to 80%-120% of market value.
- (B) Change the Board's amortization policy No. ACT-96-05E as follows:
 - 1. Calculate the annual contribution amount with regard to gains and losses as a rolling 30 year amortization of all remaining unamortized gains or losses as opposed to the current 10% of such gains and losses; and
 - 2. Eliminate (B) (6) from the existing policy which is obsolete language regarding the amortization of the State plans' unfunded liability.
- (C) Adopt a new Board policy imposing a minimum employer contribution rate equal to the employer normal cost minus a 30 year amortization of surplus, if any.

IV. ANALYSIS:

Recap of First Reading (March 2005 Meeting)

At the March 2005 Benefit and Program Administration Committee meeting, the actuarial staff presented to the members of the Committee an extensive agenda item on the topic of rate stabilization. That agenda item included the results of all the analysis that had been performed by staff. In total, staff analyzed the impact of 34 methods that could be implemented to reduce fluctuation in contribution rate.

As mentioned in the March 2005 agenda item, the analysis of smoothing methods must simultaneously investigate the impact on the employer's contribution rates and the impact on the funded status of the plans at CalPERS.

The objectives of the analysis were to seek the smoothing method that "best" simultaneously:

- **Minimizes the impact on the funded status of the plans**
- **Minimizes the volatility in the employer's contribution**
- **Minimizes the average future employer contribution.**

An additional objective was to find a method that accomplishes the three objectives above and produces employer rates that comply with the generally accepted accounting standards as provided by Governmental Accounting Standards Board Statement No.27 (GASB 27).

In accordance with the objectives above, staff eliminated the methods that did not preserve funded status, or did not reduce employer rate volatility by at least 50% of that produced by the current methods, or did not comply with GASB statement 27. Staff also considered the impact of each method on the average employer contribution rate and eliminated all but one method.

The resulting recommended method consists of increasing the actuarial value of assets corridor from 90%-110% of market value to 80%-120% of market value, spreads market value asset gains and losses over 15 years, and amortizes all unamortized gains and losses over a rolling 30 year amortization.

In addition, staff is recommending, following direction from Committee members at the March 2005 meeting, a minimum employer contribution rate equal to the employer normal cost minus a 30 year amortization of any surplus. As mentioned at the last meeting, such a minimum rate would be in compliance with GASB Statement 27. It should be noted that even with this minimum contribution, employer rate for very well funded plans would still be zero.

Staff recommends adopting the Employer Rate Stabilization Policy, which would change the two existing Board policies described above and add the new policy, to help reduce the volatility in employer contribution rates and without having a materially adverse impact on the actuarial soundness of the System or harming the security of the benefits of members and beneficiaries.

Effective Date of Proposed Rate Stabilization Method

Staff recommends that the proposed rate stabilization method become effective with the June 30, 2004 actuarial valuations. These valuations set State and School employer contribution rates for fiscal year 2005-06 and public agency employer contribution rates for fiscal year 2006-07.

An advantage of implementing the proposed rate stabilization methods as of the June 30, 2004 actuarial valuations is that the actuarial value of assets is very close to market value on that date. The strong investment performance for 2003-2004 (16.7% return) will eliminate most unrecognized prior investment losses as of June 30, 2004. It should be noted that most plans will still have a small asset loss in their actuarial value of assets for fiscal 2003-2004 and that loss will be reflected in the June 30, 2004 valuation.

It should also be noted that some public agency employers have expressed interest in having the proposed method apply to the 2005-2006 fiscal year contributions rather than the 2006-2007 contributions. Staff does not recommend this for the following reasons:

- Extensive amount of work involved. Approximately 2000 valuations and reports as of June 30, 2003 would have to be redone.
- Current Board policy No. ACT-96-05E permits employers to request an extension of the amortization of any unfunded liability over a period of up to 30 year. This policy provides rate relief for employers that need it.
- On June 30, 2003 the actuarial value of assets was 110% of market value. While this earlier implementation would produce lower contribution rates for fiscal year 2005-2006, the unrecognized investment losses would prevent employers from receiving any additional relief from short term investment performance and rates would continue to increase in the short term.

Implementation of Proposed Rate Stabilization Method

The change in the calculation of the actuarial value of assets (using 15 years rather than 3 to spread market gains and losses) will have only a minimal impact when first implemented on June 30, 2004 because there will be less than 2% unrecognized market losses remaining as of that date. So, there is very little difference between spreading that 2% loss over the current 3 years or the new method of 15 years.

On the other hand the change to a 30 year amortization period on all unrecognized losses will have a more significant impact on employer rates. In implementing this part of the new methodology, there is one issue that should be fully disclosed. That issue is that many employers have received one or more fresh starts over the past several years. Recall that a fresh start is when multiple amortization bases are combined into a single base. Therefore, for all plans that have received fresh starts, amortization bases established due to benefit improvement, or changes in actuarial methods or assumptions have been combined with gain and loss bases and staff cannot distinguish between the gains and losses that should be amortized over the rolling 30 year period and the portion of the fresh start base that should be amortized over different periods of time.

For most plans with an unfunded liability, the major portion of the unfunded liability is due to prior asset performance less than the actuarially assumed return. Therefore, CalPERS staff recommends that all fresh start bases be converted to a gain and loss base and amortized over the rolling 30 year period.

The following summarizes the implementation policy being recommended:

- All existing gain and loss bases should be amortized over the rolling 30 year period.
- All existing amortization bases for benefit improvements, assumption changes, method changes and initial unfunded liabilities for new agencies will continue to be amortized under their current period.
- All existing fresh start bases will be converted to gain and loss bases and amortized over a rolling 30 year period.

Preserving the Security of Benefits

The analysis performed by the actuarial staff demonstrated that the proposed method would not harm the benefit security of members. However, it is possible that the applicability of the new methods might jeopardize the security of benefits of members if a plan is currently poorly funded. If the chief actuary determines that this is the case for a specific plan, then the chief actuary continues to have the right under current Board policy (ACT-96-05E paragraph (B)(6)(a)(5)) to amortize the unfunded liability for that plan over a shorter period of time.

Implementation for Risk Pools and Pooled Plans

Beginning with the June 30, 2003 actuarial valuation, all public agency plans were mandated in a risk pool if the number of active members in the plan was at or below 100.

In order to preserve equity and ensure that employers with surplus did not pay for employers with an unfunded liability, a side fund was created for each plan at the time of joining a risk pool. That side fund represented the difference between the assets and liabilities at the time of joining a risk pool. These side funds were amortized over time and are expected to disappear once the amortization is completed.

Since side funds were created mainly to ensure equity at the time of creating risk pools, staff will apply the proposed rate stabilization method at the risk pool level only. The amortization of side funds for pooled plans will not be affected by the implementation of the proposed rate stabilization method. Side funds will continue to be amortized in accordance with the schedule established at the time of joining a risk pool.

Implementation of Minimum Employer Contribution Rate

Implementing a minimum rate equal to the employer normal cost less a 30 year amortization of any surplus will result in an increase in contribution rate for a number of employers. Staff went back to see what would have been the impact on employers had the minimum rate been implemented in the June 30, 2003 actuarial valuations. Since none of the State plans and the Schools pool had a surplus on June 30, 2003, the minimum rate has no immediate impact on them.

For public agencies, a total of 35 non-pooled plans still had a surplus in the June 30, 2003 actuarial valuation. The table below shows the impact of the minimum rate on the employer contribution rate had we implemented this minimum rate in the June 30, 2003 actuarial valuations which set the 2005-2006 employer contribution rate:

Estimated Impact of Minimum Employer Contribution Rate

Increase in Employer Rate	Number of Non-Pooled Plans
No Change	3 Plans
Increase of Less than 1% of Payroll	23 Plans
Increase Between 1% and 2% of Payroll	8 Plans
Increase Between 2% and 3% of Payroll	1 Plans

As mentioned earlier, the amortization schedule of the side funds will remain the same with the implementation of the proposed rate stabilization method. Therefore, for plans participating in one of the risk pools the minimum employer contribution rate will be applied at the risk pool level and not for individual employers.

For superfunded employers, the implementation of the minimum employer rate is not expected to have any impact. Since the minimum employer contribution rate

Members of the Benefits and Program Administration Committee
April 19, 2005

will be equal to the employer normal cost minus a 30 year amortization of any surplus, we expect that for most superfunded plans the minimum rate will still result in an employer rate of zero. Staff went back to see what would have been the impact on superfunded plans had the minimum rate been implemented in the June 30, 2003 actuarial valuations. For all 50 superfunded plans the employer contribution rate for fiscal year 2005-2006 would have remained 0%.

V. STRATEGIC PLAN:

The proposed rate stabilization method supports Goal IV of the CalPERS' Strategic Plan. The Plan reads as follows:

Goal IV

Assure that sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize employer contributions.



David Lamoureux, Senior Pension Actuary
Actuarial & Employer Services Division



Ron Seeling, Chief Actuary
Actuarial & Employer Services Division

Attachments

ATTACHMENT 1

BOARD POLICY NO. 05-01-AESD EMPLOYER RATE STABILIZATION POLICY

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 05-01-AESD

Subject: **Actuarial Policies - Employer Rate Stabilization Policy**

- WHEREAS, 1. On November 3, 1992, the people of the state of California passed Proposition 162, which amended Article XVI, section 17 of the California Constitution ("Section 17"), granting the CalPERS Board of Administration plenary authority and fiduciary responsibility for investment of moneys, providing for actuarial services, and administration of the Public Employees' Retirement System, the Judges' Retirement Systems, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award System (collectively "the Systems").
- WHEREAS, 2. Section 17 requires the CalPERS Board to exercise its responsibility with respect to the Systems, subject to continuing fiduciary duties and specifies that the duty to participants and their beneficiaries takes precedence over any other duty.
- WHEREAS, 3. The provisions of Section 17 expressly supersede any contrary provision of law or the Constitution.
- WHEREAS, 4. Section 17 also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.
- WHEREAS, 5. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.
- WHEREAS, 6. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

- WHEREAS, 7. Both the Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.
- WHEREAS, 8. The Board's Chief Actuary has advised the Board that volatility in employer contribution rates may harm the financial strength of employers and hence jeopardize the rights of members and their beneficiaries to receive all of their scheduled benefits.
- WHEREAS, 9. The Board's Chief Actuary has advised the Board that changing the Board's policy of actuarial asset valuation method in its policy No. 95-05C (as provided in Exhibit A), would not have a materially adverse impact on the actuarial soundness of the System and would not harm the security of the benefits of members and their beneficiaries.
- WHEREAS, 10. The Board's Chief Actuary has advised the Board that changing the Board's policy of amortization methods in its policy No. ACT-96-05E (as provided in Exhibit B), would not have a materially adverse impact on the actuarial soundness of the System and would not harm the security of the benefits of members and their beneficiaries.
- WHEREAS, 11. The Board's Chief Actuary has advised the Board that adopting a new Board policy to smooth employer contribution rates, as provided in the proposed policy No. 05-02-AESD (as provided in Exhibit C), would further reduce the volatility in employer contribution rates and improve the preservation and advancement of the funded status.

NOW, THEREFORE, BE IT RESOLVED:

- (A) It is the policy of the CalPERS Board to utilize professionally accepted actuarial methods to help reduce volatility and help stabilize employer contribution rates.
- (B) To adopt the revised Board policy of actuarial asset valuation method No. 95-05C (Rev.), (Exhibit A) to calculate the actuarial value of assets to spread the market value asset gains and losses over 15 years as opposed to the current 3 years and to change the corridor limits for the actuarial value of assets from 90%-110% of market value to 80%-120% of market value.
- (C) To adopt the revised Board policy of amortization methods No. ACT-96-05E (Rev.) (Exhibit B) to calculate the annual contribution amount with regard to gains and losses as a rolling 30 year amortization of all remaining unamortized gains or losses as opposed to the current 10% of such gains and losses and to

eliminate (B)(6) from the policy which is obsolete language regarding the amortization of the State plans' unfunded liability.

- (D) To adopt new Board policy No. 05-02-AESD (Exhibit C) to impose a minimum employer contribution rate equal to the employer normal cost minus a 30 year amortization of surplus, if any.

* * * * *

I hereby certify that on the 20th day of April, 2005 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM

EXHIBIT A

BOARD POLICY NO. 95-05C ACTUARIAL ASSET VALUATION METHOD

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 95-05C (Rev.)

Subject: **Actuarial Policies - Actuarial Asset Valuation Method**

WHEREAS, On November 3, 1992, the people of the state of California passed Proposition 162, which amended Article XVI, section 17 of the California Constitution ("Section 17"), granting the CalPERS Board of Administration plenary authority and fiduciary responsibility for investment of moneys, providing for actuarial services, and administration of the Public Employees' Retirement System, the Judges' Retirement Systems, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award (collectively "the Systems").

WHEREAS, Section 17 requires the CalPERS Board to exercise its responsibility with respect to the Systems, subject to continuing fiduciary duties and specifies that the duty to participants and their beneficiaries takes precedence over any other duty.

WHEREAS, The provisions of Section 17 expressly supersede any contrary provision of law or the Constitution.

WHEREAS, In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the CalPERS Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.

WHEREAS, Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

WHEREAS, Both the CalPERS Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

RESOLVED, (A) It is the policy of the CalPERS Board to utilize a professionally accepted smoothing technique in an effort to minimize substantial variations in employer contribution rates that result from wide swings, upward and downward, in the market value of assets.

RESOLVED, (B) That the actuarial value of assets shall recognize one fifteenth of the difference between the market value of assets and the expected actuarial value of assets.

RESOLVED, (C~~B~~) That, through its smoothing technique, the actuarial value of assets shall be limited to the corridor between 80% and 120% ~~90% and 110%~~ of market value.

RESOLVED, (D~~C~~) That, if the actuarial value of assets derived under this technique consistently falls either below or above the market value of assets for a period of five consecutive years, the Chief Actuary will bring this to the attention of the Board for its consideration.

RESOLVED, (E~~D~~) That any changes to the methods described above shall require Board approval.

* * * * *

I hereby certify that on the 16th day of December, 1998 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; and that this Resolution was amended on the 20th day of April, 2005.

ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION, PUBLIC
EMPLOYEES' RETIREMENT SYSTEM

EXHIBIT B

BOARD POLICY NO. ACT-95-05E AMORTIZATION METHODS

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. ACT-96-05E (Rev.)

Subject: **Actuarial Policies - Amortization Methods**

- WHEREAS, 1. On November 3, 1992, the people of the state of California passed Proposition 162, which amended Article XVI, section 17 of the California Constitution ("Section 17"), granting the CalPERS Board of Administration plenary authority and fiduciary responsibility for investment of moneys, providing for actuarial services, and administration of the Public Employees' Retirement System, the Judges' Retirement Systems, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award (collectively "the Systems").
- WHEREAS, 2. Section 17 requires the CalPERS Board to exercise its responsibility with respect to the Systems, subject to continuing fiduciary duties and specifies that the duty to participants and their beneficiaries takes precedence over any other duty.
- WHEREAS, 3. The provisions of Section 17 expressly supersede any contrary provision of law or the Constitution.
- WHEREAS, 4. The Systems contain multiple plans, in which, except as expressly provided by law, the assets and liabilities of each CalPERS plan remain separate and distinct from the assets and liabilities of other CalPERS plans.
- WHEREAS, 5. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the CalPERS Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.
- WHEREAS, 6. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

WHEREAS, 7. Both the CalPERS Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

NOW THEREFORE BE IT RESOLVED:

- (A) It is the policy of the CalPERS Board to utilize professionally accepted amortization methods to provide for the elimination of unfunded liabilities or surpluses in a manner that maintains benefit security for the members of the Systems while minimizing substantial variations in employer contribution rates.
- (B) To accomplish this goal, the Board hereby adopts an amortization method which amortizes different pieces of the total unfunded liability or surplus over different periods of time, depending upon the type of event that created the particular piece of the unfunded liability or surplus, specifically as follows:
 - (1) For each plan, as of the June 30, 1996 actuarial valuation, the unfunded liability with respect to prior service shall be combined with the unfunded liability with respect to current service. The resulting combined unfunded liability shall be amortized as a level percentage of payroll over that number of full years which produces an initial payment which most closely approximates the payment on the unfunded liability that would have been produced had the Board's amortization methods prior to this Resolution remained unchanged.
 - (2) Commencing with the June 30, ~~2004~~1997 actuarial valuation, the annual contribution amount with regard to gains and losses shall be determined as the level percent of payroll required to amortize the accumulated amount of unamortized gains and losses as of the valuation date over a period of thirty years (i.e. rolling thirty year fresh start). ~~shall equal ten percent of the accumulated amount of unamortized gains and losses as of the valuation date.~~
 - (3) Commencing with the June 30, 1997 actuarial valuation, the annual contribution with regard to a change in unfunded liability due to a change in plan provisions, or a change in actuarial assumptions, or a change in actuarial methods, shall be determined as the level percent of payroll required to amortize that change in unfunded liability over a period of twenty years from the date of the actuarial valuation which first recognizes that change in unfunded liability.
 - (4) Any agency contracting with CalPERS for the first time shall have the initial unfunded liability amortized as a level percent of payroll over a period equal to the smaller of twenty years or the average future working lifetime of that agency's active members.

- (5) Commencing with the June 30, 1997 actuarial valuation, notwithstanding the foregoing (1) through (4) and except as provided in (6) below, the annual contribution with regard to the total unfunded liability as of any valuation date shall not be less than the amount necessary to amortize the total unfunded liability as a level percent of payroll over a period of thirty years from the date of that actuarial valuation.
- ~~(6) Recognizing that the current amortization period for all State plans exceeds twenty years, the policies provided in this Resolution will first apply to all State plans commencing with the actuarial valuation for which the remaining amortization period is twenty years.~~
- (6) ~~(7)~~ In certain cases, provide for a Fresh Start of the amortization bases. Under this policy, Fresh Start means combining all amortization bases into a single base equal to the unfunded liability/surplus.
- (a) A Fresh Start may be used whenever application of policies as set forth in paragraphs (B)(1) through (B)(3) results in mathematical inconsistencies or a violation of the goals as stated in paragraph (A), including, without limitation, the following circumstances:
- (1) a negative employer contribution rate; or
 - (2) a negative employer amortization payment on a positive unfunded liability; or
 - (3) a positive employer amortization payment on a negative unfunded liability (i.e. an actuarial surplus); or
 - (4) the effect of adding multiple amortization base payments results in a net amortization payment that completely amortizes the total unfunded liability/surplus in a very short time period, which results in a large change in the employer contribution rate; or
 - (5) whenever application of the methods set forth in paragraph (B), in the professional judgment of the Chief Actuary, does not accomplish the goals as stated in paragraph (A).
- (b) The amortization period of the Fresh Start base shall be determined by policies established by the Chief Actuary in a manner which best meets the goals stated in paragraph (A). The Chief Actuary will inform the Board of the policies so established, and the Board shall retain its right to instruct the Chief Actuary to change those policies.
- (7) ~~(8)~~ Commencing with the June 30, 2003 actuarial valuation, the annual contribution with regard to the side fund for agencies joining a risk pool for the first time shall be determined as the level percent of payroll required to amortize the side fund using a fresh start. The fresh start shall be done over a period that would produce an amortization payment as a percentage of payroll that would be as close as possible to the payment that all existing separate amortization bases would have generated had the plan not participate in a risk pool.

- ~~(8)~~ (9) Commencing with the June 30, 2003 actuarial valuation, the annual contribution with regard to a change in side fund due to a change in plan provisions for employers participating in a risk pool shall be determined by doing a Fresh Start of the adjusted side fund. The Fresh Start shall be done as a level percent of payroll over the period that would produce a required contribution as close as possible to amortizing the change in side fund in accordance with paragraphs (B)(3) and B(7).
- (C) Public agency employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Chief Actuary, for an extension of the amortization period to no more than thirty years. Other employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Board for an extension of the amortization period to no more than thirty years.
- (D) This Resolution shall be effective immediately upon adoption.

* * * * *

I hereby certify that on the 20th day of October, 1999 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; and that this Resolution was amended on the 20th day of April, 2005.

ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION, PUBLIC
EMPLOYEES' RETIREMENT SYSTEM

EXHIBIT C

BOARD POLICY No. 05-02-AESD

SMOOTHING EMPLOYER CONTRIBUTION RATES

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 05-02-AESD

Subject: **Actuarial Policies - Smoothing Employer Contribution Rates**

- WHEREAS, 1. On November 3, 1992, the people of the state of California passed Proposition 162, which amended Article XVI, section 17 of the California Constitution ("Section 17"), granting the CalPERS Board of Administration plenary authority and fiduciary responsibility for investment of moneys, providing for actuarial services, and administration of the Public Employees' Retirement System, the Judges' Retirement Systems, the Legislators' Retirement System, and the Volunteer Firefighters' Length of Service Award System (collectively "the Systems").
- WHEREAS, 2. Section 17 requires the CalPERS Board to exercise its responsibility with respect to the Systems, subject to continuing fiduciary duties and specifies that the duty to participants and their beneficiaries takes precedence over any other duty.
- WHEREAS, 3. The provisions of Section 17 expressly supersede any contrary provision of law or the Constitution.
- WHEREAS, 4. Section 17 also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.
- WHEREAS, 5. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.
- WHEREAS, 6. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

WHEREAS, 7. Both the Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

NOW, THEREFORE, BE IT RESOLVED:

That when the Board modifies the actuarial valuation of asset method or modifies the amortization methods to smooth out the impact of gains and losses on employer contribution rates, it shall consider all of the following:

- The impact on the preservation/advancement of funded status
- The impact on the estimated volatility of the annual change in employer contribution rates
- The impact on the estimated average employer contribution rate
- Compliance with Generally Accepted Accounting Principles

In order to further reduce the volatility in employer contribution rates and to improve the preservation/advancement of funded status, beginning with the June 30, 2004 actuarial valuations, the employer contribution rates for non-pooled plans and for risk pools will not be less than a rate equal to the employer normal cost minus the payment for a 30 year amortization of any surplus.

* * * * *

I hereby certify that on the 20th day of April, 2005 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM